FOR PARTICIPANTS ONLY

DP/STR(2)/5
29 March 1979.

ORIGINAL: ENGLISH

ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

Second Meeting of the South-east and East Asia Group of Consultants in connexion with the Implementation of ESCAP Resolution 180 (XXXIV): Strategies for the 1980s

16-21 April 1979
Bangkok

THE THAI ECONOMY: CURRENT DEVELOPMENT, FUTURE PROSPECTS AND ALTERNATIVE STRATEGIES FOR THE 1980s*

* This paper has been reproduced as submitted by Narongchai Akrasanee of Thammasat University, Bangkok, Thailand. The views expressed in it are those of the author and do not necessarily reflect those of the United Nations.

CONTENTS

		Page
I.	Past performance of the Thai economy	3
	1. Growth, structural changes and sectoral development	3
	2. Social objectives of development	21
	3. Employment	26
II.	Current development plan, present and future problems and prospects	28
	1. The current development plans and policies	28
	2. Problems and prospects	33
III.	Alternative development strategies for Thailand for the 1980s	43
	1. Current thinking on alternative development strategy	44
	2. Thailand and the alternative development strategies	51
	3. Development strategy for the internal sector	56
	4. Development strategy for the external sector	59
	5. An industrial framework for the new strategy	63
	6. Roles of the Government and other organizations	66
IV.	Conclusions	71
Bibliography		77

THE THAI ECONOMY: CURRENT DEVELOPMENT, FUTURE PROSPECTS, AND ALTERNATIVE STRATEGIES FOR THE 1980s

by

Narongchai Akrasanee

The Thai economy has been growing rapidly and has gone through several changes during the last two decades. The annual rate of growth in real term has been about 6-7 percent. The economy has become more industrialized, with more value added generated from and more people engaged in manufacturing production. Except for a brief period during 1973-75 the country had experienced the lowest rate of inflation compared with most countries. Foreign trade has been expanding, and the economy has become more and more dependent on the external sector.

While it is undeniable that economic growth has contributed to a better living standard in the country, many social objectives are still far from being fulfilled. The gap in income distribution remains wide, and about 25 percent of the people still live in poverty. Unemployment in urban area and ungainful employment in rural areas remain high. The rate of population growth until very recently was more than 3 percent a year, resulting in a swelling labor force. The migration of people into Bangkok, together with a poor city planning, is turning Bangkok into one of the most congested cities in the world.

The Fourth Economic and Social Development Plan, which was launched in 1977, gave highest priority to the fulfillment of social objectives. After two years of its implementation it is becoming obvious that social objectives are much harder to fulfill than the construction of physical infrastructure. Perhaps the most difficult aspect is the recognition of social objectives as the most important development objectives by the country's leaders.

In the meantime other economic problems are fast emerging as Thailand is entering the 1980s. Energy requirement and the depletion of natural resources are perhaps heading the list of problems. Among other serious problems are the high growth in the labor force; widening deficit in the balance of trade and payments; problems related to industrial development; the declining agricultural productivity and rural poverty; the inefficiency of the bureaucracy; and the attitude of the people towards development problems.

This paper attempts to assess economic and social changes which have taken place in Thailand during recent periods. Part I analyses the performance of the Thai economy in terms of structural changes and sectoral development, and the development in terms of social objectives. Current economic policies as outlined in the Fourth Plan and as stated periodically by the government are discussed in Part II, which also identifies present and future problems and prospects of the Thai economy. The last Part presents alternative development strategies for the 1980s.

I. PAST PERFORMANCE OF THE THAI ECONOMY

1. Growth, Structural Changes and Sectoral Development

A background to the understanding of an economy is to look at its past performance in terms of growth and structural changes and sectoral development, which includes development in the production sector, the problem of the price level, and the external sector.

A. Growth and structural changes of the thai economy

The Thai economy has been growing at the annual rate of about 7 percent in real term. This rate of growth was higher in the 1960s than in the period from 1972 to 1977, but the difference was rather small. In 1977 per capita GNP was U.S.$410, which placed Thailand among the more prosperous developing countries. The rapid growth of the last 18 years was due in considerable part to a relatively high rate of capital formation, which had increased as a percentage of GDP from 14.9 in 1960 to 21.0 in 1972 and 26.1 in 1977.

The economy depends very much on the primary sector (agriculture, mining, and quarrying), which accounted for 30.4 percent of gross domestic product in 1977. (Table 1) The manufacturing sector, however, has been growing rapidly, and its share in gross domestic product was measured at 19.2 percent in 1977 compared with 13.1 in 1960 and 17.0 percent in 1972. Foreign trade is very important to the Thai economy, as exports and imports together averaged about 42 percent of GDP during 1972-77. The foreign trade of Thailand has the classic structure of a developing and fast-growing country well endowed with natural resources. In the first half of the 1970s about 85 percent of exports consisted of primary commodities (SITC 0-4),

Table 1

Some Salient Features of the Thai Economy

	1960	1972	1977
Population (million)	27.1	38.6	44.1
Annual growth rate (percent)	3.0	2.7	
GNP per capita (baht, current prices)	2,056	4,257	8,200
GDP (million of bahts, current prices)	55,816	164,626	370,400
GDP (million of bahts, 1962 prices)	59,400	135,169	185,700
Annual growth rate (percent)	7.1	6.6	
Gross fixed capital formation as percent of GDP	14.9	21.0	26.1
Agricultural value added as percent of GDP	40.0	30.3	28.5
Manufacturing value added as percent of GDP(ISIC3)	13.1	17.0	19.2
Utilities, construction, services, etc., as percent of GDP	46.7	50.9	50.4
Imports as percent of GDP	17.2	18.8	28.0
Mfg. imports (SITC 5-8) as percent of total imports	74.6	74.2	64.4
Exports as percent of GDP	15.4	13.7	22.2
Mfg. exports (SITC 5-8 less tin metal) as percent of total exports [2/]	1.4	10.1	17.3
Mfg. exports (ISIC3) as percent of total exports [2/]	n.a.	28.0	36.5 [1/]
Mfg. employment as percent of total employment	3.4	n.a.	5.9 [1/]
Share of mfg. output in the Central Region [3/]	73.2	73.9	82.7 [1/]

Note: 1/ Data are for 1976.

2/ The difference between manufacturing classified according to SITC 5 to 8 and ISIC 3 is that the former excludes, while the latter includes, processed food, beverages and tobacco manufactures.

3/ There are four regions in the country: Central, North, South and Northeast. Bangkok Metropolis is in the Central Region.

Sources: National Economic and Social Development Board (NESDB) and the Bank of Thailand.

some in raw and some in semi-processed forms. The most important commodity exports are rice, maize, rubber, tin, tapioca products, and sugar. In contrast, about three quarters of imports were manufactured goods, with machinery and equipment (SITC 7), and chemicals (SITC 5) together accounting for more than 50 percent.[1/]

The significance of manufactured imports has not changed very much in recent years, except that their share in the total value of imports declined from 74.2 percent in 1972 to 64.2 percent due to the higher price of crude oil. The basic structure of exports has, however, undergone important changes. Based on ISIC (which treats processed food and beverages and tobacco manufactures as manufactured goods) the proportion of manufactured exports increased from 28 percent in 1972 to 36.5 percent in 1976.[2/]

Clearly, then, the manufacturing sector has been growing in importance in terms both of value added and of exports. Furthermore, it is a source of employment, as it accounted for 5.9 percent of employment in Thailand in 1976. Although this means the employment of 1.1 million[3/] persons, it must be noted that most of this employment is in the Greater Bangkok area, where about 80 percent of manufacturing activities are located (see Table 1). It is in this area where unemployment in 1976 was 9.7 percent, while the unemployment rate in rural area was 4.9 percent.[4/]

1/ Bank of Thailand, Monthly Bulletin, various issues, Bangkok.

2/ Classifying manufactured imports according to ISIC will not affect its share because imports of processed food and beverages and tobacco manufactures were small.

3/ The total number of employed persons in 1976 was 18.2 million. See Bank of Thailand, Annual Report, 1976, Bangkok.

4/ Bank of Thailand, ibid. p. 66.

B. Agricultural and industrial development

(i) Agriculture. The agricultural sector has continued to be the most important single sector in the Thai economy, both in terms of value added, employment, and foreign exchange earner. In 1977, the contribution to value added was 28.5 percent, which was about the same as in the early 1970s. Within the sector value added from crops has been the largest, averaging about 22 percent since 1970 (Table 2).

It is well known that paddy is the most important crop of Thailand. While paddy remains the most important crop, there are several other crops which have been expanding very rapidly in terms of area planted and production. In 1960 area planted of paddy was 37 million rai, and only three other crops had area planted above 1 million rai i.e. rubber, maize and coconut (Table 3). By 1975, area planted of paddy had increased to 53 million rai, but there were 10 other crops which had area planted above 1 million rai. The next largest area now belongs to maize, which has increased about six fold since 1960. Other crops which have had a very significant increase in area planted are cassava, sugar cane, mung beans, soybeans, groundnuts, kenaf, coconut, and rubber.

A very similar picture of crop expansion is seen in terms of production increases. This implies that the increase in production has been largely due to the increase in area planted, which is confirmed by the statistics of yield per rai shown in Table 3. It is clear that, except for sugar cane, average yields per hectare has either been stable or on the decline.

Table 2

The Agricultural Sector

	1970	1972	1974	1976	1977
1. Percentage of value added in total GDP	28.3	30.3	31.6	30.8	28.5
Crops	19.7	21.8	23.5	22.5	20.1
Livestock	3.6	3.6	3.8	3.7	3.7
Fisheries	3.0	3.2	2.8	3.0	2.9
Forestry	2.0	1.7	1.5	1.7	1.7
2. Value of exports as percent of total exports	72.1	67.5	68.9	69.3	n.a.
3. Employment as percent of total employment	79.3	69.4	59.3	62.5*	n.a.

Note: * First quarter (Jan. - Mar.) only.

Source: NESDB
Bank of Thailand
Labor Department

Table 3 AREA PLANTED, YIELD AND PRODUCTION OF MAJOR CROPS, 1959-78, WHOLE KINGDOM

	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
Area Planted (000 rai)																		
Paddy	33,906	37,013	38,619	41,168	41,229	40,872	40,961	46,454	41,612	45,173	47,400	46,840	47,043	44,620	48,736	43,821	53,244	50,839
Rubber	2,931	3,026	3,091	3,450	3,460	3,525	3,675	3,638	3,844	3,844	4,644	5,075	5,769	5,844	6,125	6,206	6,206	
Maize	1,249	1,785	1,916	2,030	2,612	3,449	3,605	4,084	4,651	4,763	4,799	4,824	6,640	6,819	7,528	7,927	10,176	
Sorghum	-	-	-	-	-	13	196	359	415	200	225	254	523	359	355	1,262	1,452	
Kenaf	278	827	1,720	712	957	1,365	2,401	3,314	2,468	1,585	1,931	2,777	2,236	2,893	3,635	2,964	2,363	
Cassava	391	447	621	767	875	656	637	814	881	1,067	1,042	1,010	1,314	1,923	3,235	3,899	4,657	
Sugarcane	925	984	776	636	932	1,014	883	778	936	1,137	817	917	1,035	1,311	1,878	2,080	2,995	
Tobacco (Virginia)	113	113	100	94	94	106	100	106	125	138	138	156	200	208	263	288	294	
Coconut	838	1,031	1,156	1,325	1,400	1,488	1,550	1,544	1,700	1,788	1,856	1,969	2,023	2,113	2,206	2,300	2,406	
Cotton	300	367	358	371	456	419	471	523	703	1,000	726	496	383	830	264	281	268	
Groundnuts	624	736	521	544	520	546	621	983	673	761	826	797	818	918	1,011	1,021	1,072	
Soybeans	137	139	149	174	318	213	117	285	399	329	430	467	724	985	1,136	1,102	1,365	
Mung beans	289	327	229	310	430	832	753	840	830	1,250	1,297	1,543	1,471	1,907	1,687	1,933	1,617	
Castor beans	176	197	229	289	282	242	225	271	157	240	186	148	135	129	159	210	231	
Yield (kg/rai)																		
Paddy	273	256	256	267	281	254	268	257	231	229	283	290	292	362	276	260	265	269
Rubber	55	57	60	57	58	58	59	60	57	67	61	57	55	58	60	62	56	
Maize	254	303	312	325	328	271	283	275	264	280	303	289	300	282	275	266	288	
Sorghum	-	-	-	-	-	586	374	317	331	284	276	183	278	283	252	198	214	
Kenaf	181	207	197	188	221	222	220	200	200	200	211	211	197	206	189	185	192	
Cassava	2,773	2,734	2,780	2,788	2,413	2,375	2,314	2,323	2,343	2,449	2,374	2,409	2,796	2,307	2,402	2,437	2,500	
Sugarcane	5,417	5,457	5,134	4,959	5,079	5,083	5,071	4,921	4,837	5,169	5,563	6,129	5,719	6,647	7,547	7,605	7,430	
Tobacco (Virginia)	72	80	90	117	128	123	120	132	136	116	145	141	130	117	118	128	146	
Coconut (fruits per bearing tree)	51	48	46	43	40	37	34	31	29	26	23	22	23	23	23	23	23	
Cotton	126	131	107	111	109	117	127	170	115	136	174	114	168	100	95	148	190	
Groundnuts	198	207	207	206	217	220	210	234	196	213	221	218	221	207	228	201	215	
Soybeans	215	184	162	173	157	151	164	133	132	136	154	175	217	153	145	172	178	
Mung beans	159	185	178	173	184	174	166	157	148	147	131	149	155	141	134	123	112	
Castor beans	194	218	163	151	186	161	141	154	130	161	166	166	193	150	163	149	166	
Production (000 tns)																		
Paddy	8,454	9,475	9,886	10,992	11,585	10,362	10,978	11,947	9,625	10,348	13,410	13,570	13,744	11,669	13,748	12,447	14,092	13,577
Rubber	161	172	186	195	198	211	217	218	219	258	282	287	318	337	368	382	349	
Maize	317	544	598	665	858	935	1,021	1,122	1,212	1,331	1,454	1,393	1,995	1,239	2,066	2,105	2,928	
Sorghum	-	-	-	-	-	7	73	114	137	57	67	46	148	102	140	250	310	
Kenaf	50	171	339	134	212	303	529	661	492	317	407	586	441	595	686	569	454	
Cassava	1,083	1,222	1,726	2,077	2,111	1,557	1,475	1,892	2,063	2,611	2,474	2,432	3,673	4,436	7,770	9,503	11,641	
Sugarcane	5,012	5,382	3,984	3,155	4,733	5,074	4,480	3,829	4,526	5,878	4,876	5,619	5,920	8,712	14,173	15,818	22,253	
Tobacco (Virginia)	9	9	9	11	12	13	12	14	17	18	20	22	26	24	31	37	43	
Coconut (mln fruits)	724	808	816	838	816	760	713	656	637	590	577	574	571	568	565	562	560	
Cotton	38	45	38	41	49	49	60	89	81	136	126	56	98	83	25	41	47	
Groundnuts	124	152	108	112	113	120	131	220	132	158	183	174	181	190	230	205	228	
Soybeans	29	26	24	30	33	32	19	38	53	45	69	82	157	150	164	190	243	
Mung beans	46	60	41	54	116	110	125	132	123	184	170	229	228	269	225	237	181	
Castor beans	34	43	33	44	53	39	32	42	20	39	31	24	27	19	26	31	39	

Note: These totals differ slightly from those presented in Table 7.1 above owing to different sources. These are the only ones available on a regional and subregional basis and were used in the profiling analysis.

Source: Department of Agricultural Extension, Ministry of Agriculture and Co-operatives.

In terms of regional development the Northeastern and Northern regions have had drastic changes in crop pattern. The area planted for paddy had almost double during 1960-1975. The Northeast has also significantly increased the area planted and production of cassava, maize and kenaf. In the North, three crops have dominated the scene, i.e., maize, mung beans and soy beans. The Southern region has an increase in area planted for rubber, which had doubled during 1960-1975.

Much of the development in the agricultural sector has been due to the external demand. As may be seen from Table 4, in the early 1960s rice used to account for about 30 percent of the total value of exports. By mid 1970s, the significance of rice export has very much declined in relative terms. In addition to rice and rubber, other crops which have become major foreign exchange earners are maize, cassava (tapioca products), sugar, mung beans, tobacco leaves, sorghum, kapok fibre, and castor seeds.

(ii) Industry. A broad definition of the industrial sector includes mining and quarrying, manufacturing, construction, electricity and water supply. Within the sector, manufacturing has been the most dynamic, and its contribution to gross domestic product increased from 13.1 percent in 1960 to 19.2 percent in 1977. Its annual growth rate in current prices during the period 1972-77 was 21.2 percent, second only to the annual growth rate of the banking, insurance and real estate sector. During this period its contribution to the increase in GDP was 19.7 percent, again the second highest after agriculture.

Table 4

Agricultural Commodity Exports of Thailand

Year	Rice		Maize		Cassava products		Sugar		Others		Total	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
1960	2,570	29.8	551	6.4	288	3.3	8	0.1	5,197	60.3	8,614	100.0
1961	3,598	36.0	599	6.0	446	4.5	3	0	5,351	53.5	9,997	100.0
1962	3,240	34.0	516	5.4	423	4.4	46	0.5	5,304	55.7	9,529	100.0
1963	3,424	35.4	857	8.9	439	4.5	122	1.3	4,834	50.0	9,676	100.0
1964	4,389	35.6	1,388	11.2	653	5.3	211	1.7	5,698	46.2	12,339	100.0
1965	4,334	33.5	1,004	7.8	676	5.2	100	0.8	6,827	52.8	12,941	100.0
1966	4,001	28.4	1,577	11.3	644	4.6	82	0.6	7,795	55.3	14,099	100.0
1967	4,653	32.8	1,431	10.1	726	5.1	37	0.3	7,319	51.7	14,166	100.0
1968	3,775	27.6	1,647	12.0	772	5.6	--	0	7,485	54.7	13,679	100.0
1969	2,945	20.0	1,767	12.0	876	6.0	47	0.3	9,087	61.7	14,722	100.0
1970	2,517	17.0	1,969	13.3	1,223	8.3	94	0.6	8,969	60.7	14,772	100.0
1971	2,909	16.8	2,286	13.2	1,240	7.2	382	2.2	10,464	60.6	17,281	100.0
1972	4,437	19.7	2,085	9.3	1,547	6.9	1,264	5.6	13,158	58.5	22,491	100.0
1973	3,594	11.2	2,969	9.2	2,537	7.9	1,116	3.5	22,010	68.3	32,226	100.0
1974	9,778	19.4	6,078	12.1	3,836	7.6	3,757	7.5	26,876	53.4	50,325	100.0
1975	5,851	12.9	5,703	12.7	4,600	10.2	5,696	12.7	23,177	51.5	45,027	100.0
1976	8,603	14.2	5,676	9.3	7,517	12.4	6,843	11.3	32,158	52.9	60,797	100.0
1977	13,449	18.3	3,346	4.6	7,700	10.5	7,405	10.1	41,487	56.57	3,387	100.0

Source: Bank of Thailand.

Within manufacturing, the structure as measured by the composition of value added has also been changing overtime (Table 5). In the early 1960s industrial production was concentrated in processed food, beverages and tobacco products, non-durable consumer goods, and construction materials. Relative significance of these groups of industries declined at the end of the 1960s. Rising in significance were petroleum products, intermediate products chiefly for consumer goods, and transport equipment. In the early 1970s the structure of manufacturing production became more evenly distributed among several groups of industries consisting of processed food, beverages and tobacco, intermediate products for consumer goods and for capital goods, and non-durable consumer goods. These five groups of industries accounted for about 85 percent of manufacturing value added during the period 1972-1977, leaving the remaining 15 percent shared by construction materials, durable consumer goods, machinery and transport equipment. The structure had been quite stable during this recent period, indicating a more balanced growth of value added at different stages of manufacturing industries. The stability is in terms of sub-sectoral balances only. Within a sub-sector, as will be shown below, the composition of value added continued to change.

At a more disaggregated level the most important industries in 1972 according to value added were beverages, tobacco products, petroleum products, textiles, clothing, food products, cereal products, motor vehicles, and textile articles (Table 6). In 1977, those industries just mentioned remained the most important, with several other industries having value added more than one billion baht.

Table 5

Value Added of Manufacturing Output by Sub-sectors

Industry	Value Added (1,000 baht)						Proportion of Industrial V.A. to Total V.A.						Annual rate of Growth	Contribution to Total V.A. increase
	1972	1973	1974	1975	1976	1977	1972	1973	1974	1975	1976	1977	(1972-1977)	(1972-1977)
Processed food	5,027	6,654	9,374	11,215	14,492	16,204	18.4	18.7	20.8	21.9	24.0	22.7	25.4	25.4
Beverage and tobacco	5,109	6,056	7,739	7,962	10,112	12,682	18.7	17.0	17.1	15.5	16.7	17.8	18.2	17.2
Construction materials	1,306	1,625	2,079	2,168	2,539	3,040	4.8	4.6	4.6	4.2	4.2	4.3	16.8	3.9
Intermediate products I	3,704	4,638	6,647	7,547	8,117	9,816	13.6	13.0	14.7	14.7	13.4	13.8	19.5	13.9
Intermediate products II	4,933	6,637	7,762	7,666	9,679	11,137	18.1	18.6	17.2	14.9	16.0	15.6	16.5	14.1
Consumer nondurables	5,136	6,179	6,384	9,023	8,920	10,433	18.8	17.3	14.2	17.6	14.7	14.6	14.2	12.0
Consumer durables & machinery	2,042	3,822	5,082	5,772	6,626	7,973	7.6	10.8	11.4	11.2	11.0	11.2	27.2	13.5
Total	27,257	35,611	45,058	51,353	60,485	71,285	100.0	100.0	100.0	100.0	100.0	100.0	19.2	100.0

Table 6

Value Added by Industry, 1972-1977

(Millions of Baht)

	Industry	1972	1973	1974	1975	1976	1977
I.	Processed Food	5,027	6,654	9,374	11,215	14,492	16,204
	1. Meat and meat products	889	700	2,036	2,040	2,076	3,209
	2. Sugar and confectionary	652	970	2,344	2,388	4,116	4,785
	3. Dairy product	405	495	622	705	952	1,069
	4. Cereal product	1,493	2,514	2,973	3,218	3,791	4,231
	5. Food product	1,638	1,975	1,399	2,064	2,784	2,946
II.	Beverages and Tobacco	5,109	6,056	7,730	7,962	10,112	12,682
	6. Beverages	2,488	3,135	3,903	4,033	5,146	6,832
	7. Tobacco	2,621	2,921	3,827	3,929	4,966	5,850
III.	8. Construction Material	1,306	1,625	2,079	2,168	2,539	3,040
IV.	Intermediate Products I	3,704	4,636	6,647	7,547	8,117	9,816
	9. Oil and fats			(include in 5)			
	10. Lumber and plywood	661	885	1,482	1,632	1,531	2,046
	11. Leathers	219	264	249	214	283	294
	12. Thread and yarn			(include in 18)			
	13. Fuel and petroleum	2,403	2,965	4,224	4,930	5,279	6,178
	14. Glass and glass product	225	280	359	395	419	506
	15. Chemical material	151	192	264	300	514	646
	16. Iron and steel	45	52	69	76	91	146
	17. Non ferrous metal basic ind.			(include in 21)			
V.	Intermediate Products II	4,933	6,637	7,762	7,666	9,679	11,137
	18. Textile	2,124	2,945	3,366	3,439	4,664	5,039
	19. Paper and paper product	226	215	270	238	254	299
	20. Rubber and rubber product	545	643	774	875	1,209	1,403
	21. Metal product	1,162	1,848	2,126	1,940	2,288	2,802
	22. Chemical product	808	898	1,119	1,055	1,140	1,428
	23. Wood product	68	88	107	119	124	166
VI.	Consumer non-durable	5,136	6,179	6,384	9,023	8,920	10,433
	24. Clothing	1,727	2,376	2,994	3,478	4,255	5,026
	25. Textile articles	1,268	1,117	1,247	1,182	544	585
	26. Shoes	61	75	92	99	11	12
	27. Printing and publishing	718	956	1,450	1,983	1,578	1,732
	28. Leather goods			(include in 11)			
	29. Pharmaceuticals	796	926	1,138	1,388	1,828	2,293
	30. Miscellaneous	566	729	773	893	704	785
VII.	Consumer durables & machinery	2,042	3,822	5,082	5,772	6,626	7,973
	31. Furniture	301	372	535	577	585	717
	32. Motorcycle, bicycles assembly & parts			(include in 36)			
	33. Consumer electrical goods	264	310	359	400	430	495
	34. Machinery, agricultural & non-electrical	559	705	893	942	1,056	1,403
	35. Electrical machinery	136	165	245	263	288	331
	36. Transport equipment (Motor Vehicle)	1,384	2,270	3,052	3,585	4,267	5,027
	TOTAL	27,257	35,611	45,058	51,353	60,485	71,285

Source: NESDB

Note: Year 1977 figures were estimates.

Industries which have been expanding very rapidly are textiles and related products, food processing (animal feeds and fruit canning), sugar, pharmaceuticals, and engineering industries (agricultural machinery, motor vehicles, electrical goods, metal products, etc.).

On the development of major industries, there were many important events in 1978. There was for the first time a serious shortage of cement in the country, due to the long delay in expansi of capacity. The decision to expand cement production was finally made by the major cement producers, which would increase capacity from 5 million tons to 11 million tons in 1982. Textile industry made a dramatic come back. It is now estimated that the total value of textile export would increase by more than 50 percent in 1978. Food processing saw the biggest expansion in animal feeds and plann expansion in fruit canning. Finally the country began to feel the shortage of refined petroleum products, and a major expansion is expected soon.

Manufacturing growth has concentrated mostly in the Bangk Metropolis and the Central Region. In fact a few years ago most manufacturing activities were in Bangkok and the four nearby provin Recent expansion of the sugar industry and food processing, includi animal feeds and fruit canning, has extended manufacturing activiti to rural areas but still within the Central Region. This concentra of manufacturing activities is considered to be one of the major problems of industrial development.

The development of the manufacturing sector has been conditioned by both market forces (internal and external) and

government policies.[1/] This is to be expected because of the free enterprise nature of the economy. Interferences from the government have shaped the pattern of growth of some industries, notably cement and oil refinery. Other government policies especially tariff and promotion policies have affected choice of industries, of technology and of location.

C. Money and the price level

Inflation has become a major problem of the Thai economy. After a slowdown in the rate of price increase in 1974/75, following the period of a very high price increase in 1972/73 and 1973/74, the rate of inflation has begun to pick up since 1976. For 1978 the estimated percentage price increase in terms of consumer price index was about 10 for the whole Kingdom. The largest increase was in the category of food. And Bangkok was hardest hit by inflation, with the consumer price index expected to have increased by more than 13 percent.

An attempt to explain price changes in Thailand during the period 1972 to 1976 was made by Ammar Siamwalla (1978), and the major conclusion was that the 1972 to 1974 inflation was caused by external factors. The author reached this conclusion by showing that neither the Keynesian nor the monetary explanation of inflation was acceptable. For the former, inflation was supposed to have been caused by excess aggregate demand, which was not the case during that period.

1/ An investigation into sources of growth of manufacturing output clearly shows that growth was due mostly to the increase in domestic demand in the 1960s and early 1970s, with exports playing an increasingly more important role in the mid 1970s. See Akrasanee (1977).

As for the monetarist explanation, the movement in money supply has been found to be positively correlated with the movement in prices. But the expansion of money supply was due largely to the surplus in the balance of payments, thus can not be considered inflationary. Hence during the period of inflation there was no excess demand and no pressure on real resources. Inflation must therefore, have originated from the increase in export and import prices, both of which are considered to be external sources.

The explanation of inflation given above does not seem to fit the period of price movement in 1976 to 1978 (see Table 7). The surplus in the balance of payments was very low in 1976, after which it turned to a very large deficit in 1977 and 1978. The increase in money supply was higher than 10 percent per annum throughout the period, due largely to the large increase in claims on central government. Furthermore, prices of exports and imports did not change very much. Thus the cause of a rather high inflation rate in 1977-78 must be the pressure on real resources especially during the period of negative growth of agricultural production.

D. Foreign trade and the balance of payments

The significance of the external sector to the Thai economy is well known. As mentioned above, the total value of exports and imports became higher than 50 percent of GNP in 1977, and they have continued to grow rapidly. Foreign capital has been a major source of capital formation, contributing about 7 percent to the total fixed capital formation during the period 1972 to 1977.

Table 7

Summary Statistics on Inflation and Its Possible Causes

	1970	1971	1972	1973	1974	1975	1976	1977	1978 P/
Consummer price indices (1964/65 = 100)	113.5	114.0	119.6	138.1	171.7	180.8	188.4	201.9	220.1
Balance of payments (millions of baht)	-2,652.0	-335.2	3,991.4	864.2	8,012.0	-2,858.0	-82.8	-7,537.9	-12,000.0
Money supply (M1) (billions of baht)	19.4	21.4	24.8	29.9	33.2	35.0	40.6	44.3	n.a.
Price indices of imports (1958 = 100)	93.1	97.9	103.4	120.7	195.3	217.8	215.1	227.0	n.a.
Price indices of exports (1958 = 100)	104.7	100.9	105.0	164.8	243.7	215.1	200.6	203.9	n.a.
GDP growth rate	6.5	8.1	4.3	10.3	4.6	5.5	6.3	6.2	n.a.
Agriculture	2.6	5.4	-0.8	10.6	2.1	4.5	3.1	-0.9	n.a.
Manufacturing	6.8	17.3	10.8	13.8	4.2	6.9	7.6	14.0	n.a.

P = Preliminary

Sources : Bank of Thailand and NESDB

Imports into Thailand are almost entirely manufactured goods from developed countries, about 40 percent of which are imported from Japan. Exports of manufactured goods, on the other hand, account for about 20 percent of total exports, with developed countries being the major customers. The current account in the balance of payments has been in the deficit for the last two decades. But with a favorable service account, the deficit in the current account has been small, and has not worried policy makers too much, especially when the balance of payments has been in the surplus in most years (Table 8). Since 1976, however, the surplus in the service account started to fall, and with a big deficit in the commodity account in 1977, due to a sharp rise in imports, the balance of payments ended up with a very large deficit. The deficit in the balance of payments has been predicted to be even larger in 1978 and 1979.

The events described above have happened despite the fact that exports have been growing very rapidly. An explanation given is that the Thai economy is very much dependent upon imports. Growth of domestic production always leads to higher demand for imports, including the production for exports, while exports are subject to more fluctuation. A closer look would reveal this structural problem of the foreign trade of Thailand. As Table 9 shows, exports have indeed been expanding very rapidly since 1970; their value index passed that of imports in 1976. But this is not a continuous trend, whereas it is in the case of imports. For example export value could drop below a preceding year, just as it did in 1975. And from 1976 to 1977 export value increased by 16% and import value rose by 35%. This growth

Table 8 SUMMARY BALANCE OF PAYMENTS
(Millions of baht)

	1970	1971	1972	1973	1974	1975	1976	Pr
Merchandise exports, f.o.b.	14,269.7	16,692.1	21,750.2	31,252.5	49,002.4	44,382.4	60,361.2	
Merchandise imports, c.i.f.	26,406.7	26,606.4	30,634.8	42,054.9	63,304.6	64,527.0	71,446.1	
Nonmonetary gold imports /a	107.8	26.6	-	-	-	-	-	
Trade balance	-12,244.8	-9,940.9	-8,884.6	-10,802.4	-14,302.2	-20,144.6	-11,084.9	-3
Service receipts	10,094.8	9,899.6	11,322.7	12,723.1	15,634.2	16,551.6	13,993.3	1
Service payments	4,058.6	4,495.5	4,739.7	5,886.7	8,033.5	10,390.8	12,350.8	1
Net service	6,036.2	5,404.1	6,583.0	6,836.4	7,600.7	6,160.8	1,642.5	
Transfers (net)	1,011.7	904.1	1,238.8	2,968.8	4,916.9	1,632.1	464.5	
Private	(57.4)	(131.1)	(630.7)	(2,398.9)	(4,375.6)	(1,134.5)	(100.8)	
Government	(954.3)	(773.0)	(608.1)	(569.9)	(541.3)	(497.6)	(363.7)	
Current account balance	-5,196.9	-3,632.7	-1,062.8	-997.2	-1,784.6	-12,351.7	-8,977.9	-3
Capital inflow (net)	2,478.8	1,733.1	3,643.2	2,937.6	9,054.7	7,754.7	9,263.8	1
Private sector	2,326.0	1,463.1	3,406.6	1,910.1	7,801.0	5,696.3	5,060.4	
Direct investment	(890.5)	(808.4)	(1,427.1)	(1,604.9)	(3,836.3)	(1,744.8)	(1,614.1)	(
Medium- and long-term loans and credits	(1,007.7)	(397.0)	(1,392.5)	(-1,199.0)	(2,637.1)	(1,316.7)	(689.3)	(
Other	(427.8)	(257.7)	(587.0)	(1,504.2)	(1,327.6)	(2,634.8)	(2,757.0)	(
Public sector	152.8	270.0	236.6	1,027.5	1,253.7	2,058.4	4,203.2	
Loans to the Central Government	(445.1)	(306.3)	(214.7)	(387.2)	(126.4)	(-105.0)	(2,157.2)	
Loans and credits to state enterprises	(90.7)	(60.2)	(338.3)	(372.7)	(1,173.9)	(2,203.0)	(1,839.3)	(
Other Central and Local Government	(-383.0)	(-96.5)	(-316.4)	(267.6)	(-46.6)	(-39.6)	(206.7)	
Errors and omissions	66.1	1,266.2	1,090.3	-1,076.2	741.9	1,739.0	-368.5	
Change in reserves (increase = -)	2,652.0	633.4/a	-3,670.7/a	-864.2/a	-8,012.0/b	2,858.0/b	82.8	

/a Including timing adjustments and official gold imports for the minting of commemorative coins.

/b Excluding SDR allocations of $14.3 million (B 298.2 million) in 1971 and $15.4 million (B 320.7 million) in 1972, and reserve valuation adjustments.

Source: Bank of Thailand.

Table 9

Trade Volume And Price Indices
(1970=100)

	1971	1972	1973	1974	1975	1976	1977
Export volume	121.3	151.9	138.6	144.8	148.3	214.9	248.4
Import volume	94.5	102.9	120.5	113.0	105.8	116.8	142.7
Export price index	96.4	100.3	157.4	232.8	205.4	191.6	194.2
Import price index	105.2	111.1	129.6	209.8	233.9	231.0	244.0
Terms of trade	91.7	90.3	121.4	111.0	87.8	82.9	79.6

Source: Bank of Thailand Monthly Bulletin.

performance of exports is considered to be a structural problem in the sense that the concentration of exports in primary commodities explained much of the fluctuation in export earnings. In the case of imports, the rising price of crude oil which has been followed by a one-or two-year lag in the price of machinery and capital goods imports, would lead to a continuously rising value of imports. This conclusion is also based on the abservation that imports have an elastic income elasticity of demand, and a rather inelastic price elasticity.

It seems therefore the trade deficit can be expected to remain. In the past the service account was relied upon to help reduce the deficit in the current account. But since 1976 the surplus in the service account has been relatively small because of the reduction of American military expenditures and the fast growth of Thais travelling abroad. The deficit in the current account was therefore very large in 1977 and 1978, which was the major factor causing a sizable balance of payments deficit. This was so because the deficit occurred even with a substantial gain in the net capital inflow.

2. Social Objectives of Development

Economic development needs to be evaluated also in terms of social objectives, which are several in number. In this Section we will discuss only the aspects of income and employment.

A. Income distribution and poverty

Income distribution is a problem in most countries, and Thailand is no exception. The discrepancy has been found to be widest

between income in rural and urban areas, and among regions. But serious as it is, the discrepancy in income distribution does not reveal the true problem in rural areas. For this purpose, an indicator of poverty is more revealing. In Thailand, despite the high growth rate, there was still about 25 percent of the people who lived below the poverty line in 1975/76. Table 10 shows in more detail the incidence of poverty during the period 1962/63 to 1975/76. The incidence of poverty is very high in all regions except the Central and Bangkok. But even in the Central Region and Bangkok, there was very little improvement from 1968/69 to 1975/76. For the Kingdom as a whole the percentage of the population living in poverty has been declining, but the remaining 25 percent is still considered very high. When the distribution of the poor is considered, about 50 percent of them live in the rural Northeast. And 91 percent of the poor live in rural areas. (Table 11). It should also be noted that this poverty line is based on arbitrarily chosen monthly income of 200 Baht (US$10) per person in urban areas and 150 Baht in rural areas in 1975/76 prices. This is really a line of absolute poverty.

With this poverty and income distribution situation, one would expect that people at lower income scale should receive more from public services. As Table 12 clearly shows, this has not been the case in Thailand. In fact the lower the income, the less services are available. It is not a coincidence that the further the people are away from Bangkok, the lower is their income.

Table 10

Incidence of Poverty[a] by Region and Location, 1972-76

	% of population		
	1962/63	1968/69	1975/76
Northeast			
Urban	36	13	13
Rural	75	60	38
Total	72	58	36
North			
Urban	45	14	13
Rural	60	31	28
Total	58	30	27
Center			
Urban	28	11	10
Rural	35	13	12
Total	34	13	12
South			
Urban	23	12	13
Rural	41	31	26
Total	38	29	25
Bangkok	20	9	9
Kingdom			
Urban	28	11	11
Rural	57	37	28
Total	52	34	25

(a) Poverty line is defined to be ฿ 150/month/person in rural areas and ฿ 200/month/person in urban areas, in 1975/76 prices.

Source: N.S.O. Household Income and Expenditure Survey, 1962/63, and Socio-Economic Surveys, 1968/69 and 1975/76.

Table 11

Distribution of The Poor by Region and Location

	As % of total poverty group			% of total population
	1962/63	1968/69	1975/76	1976
Northeast				
Urban	2	1	1	1
Rural	46	58	50	33
Total	48	59	51	34
North				
Urban	3	-	1	2
Rural	22	20	22	19
Total	25	20	23	21
Center				
Urban	2	1	1	2
Rural	14	7	8	20
Total	16	8	9	22
South				
Urban	1	-	1	1
Rural	8	11	11	11
Total	9	11	12	12
Bangkok	2	2	5	11
Kingdom				
Urban	10	4	9	17
Rural	90	96	91	83
Total	100	100	100	100

Source: N.S.O. Household Income and Expenditure Survey, 1962/63, and Socio-Economic Surveys, 1968/69 and 1975/76.

Table 12

Socio-Economic Indicators for Provinces Classified by Per Capita Income

	Gross Provincial Product per Capita, 1976 (Baht)					
	4,000	4,000-5,999	6,000-7,999	8,000-9,999	10,000[a]	Bangkok
% of total population	34	19	24	7	6	10
GPP per capita (1976)	3,119	4,869	6,741	8,587	22,073	19,154
GPP per capita growth rate p.a., 1970-76(%) (constant prices)	2	3	2	4	6	1
Government expenditure per capita (1974/75)	334	442	532	780	621	5,050
% of population 6-29 in school (1970)	27.6	31.3	33.6	33.0	35.0	45.9
Rural upper primary enrollment ratio (1975)	29	31	36	41	42	-
Population per hospital bed (1970)	2,075	2,071	1,162	943	358	861
Rural population per health center (1973)	8,416	6,871	6,631	5,631	6,968	-
% houses with piped water (1970)	4	6	7	8	16	79
% villages with electricity(1976)	9	15	29	31	30	-
Road distance from Bangkok(km.)	626	621	478	306	378	-

(a) Excluding Bangkok.

Source: World Bank, "Thailand: Towards a Development Strategy of Full Participation," A Basic Economic Report, Table 2.13, P. 26, Washington, D.C., September, 1978.

2. Employment

Employment is considered to be a social objective of development in the sense that it provides income and a meaning to life. It is difficult to interprete statistics on employment. The existing information suggests that employment is a serious problem in Thailand. An indication of employment problem may be seen in the statistics on labor force participation rate (LFP rate), which is available by age group for the years 1960 and 1970. From these statistics, shown in Table 13, the labor force participation rates was about 80 percent in 1970 compared with 85 percent in 1960. The decline was in all age groups, except for the lower than 15 age group, and was highest in the age groups of 50-59 and 60 and above. This may partly be due to the early retirement. Separation of the LFP rates in o male and female groups shows that the decline in the rates was much stronger in the case of female labor force. The factor which might be at work here was the increasing difficulty of finding employment. Under such a situation woman would tend to stay out of formal employment.[1/]

With this falling LFP rate and a higher than 3 percent annual growth rate of the labor force at present, due to the high population growth rate in the 1960s, unemployment will continue to be a serious problem.

1/ An explanation of higher degree of industrialization is unlikely here because there is a very high proportion of female labor force in the manufacturing sector, infact higher than male. See Akrasanee and Chutikul (1977).

Table 13

Labor Participation Rate by Five-year Age Group and Sex
1960-70

Age (years)	Labor Force Participation Rate[a/]					
	Males		Females		M&F combined	
	1960	1970	1960	1970	1960	1970
Less than 15	8.5	10.1	10.6	11.7	9.5	10.9
15 - 19	76.9	77.4	84.7	77.2	80.7	77.3
20 - 24	88.2	89.2	86.6	79.0	87.4	84.0
25 - 29	96.0	95.4	85.0	78.4	90.4	86.8
30 - 49	97.6	96.4	86.5	79.6	92.1	88.0
50 - 59	94.5	91.6	80.9	70.3	87.7	80.8
60 and above	64.4	56.4	40.0	30.5	51.2	42.3
15 and above	89.5	87.7	81.3	73.5	85.4	80.6

a/ Indicate the economically active population of any age group as percent of total population of that age group.

Source: National Statistical Office, Census of Pupulation, 1960 and 1970.

The reasons for jobs not being created faster than they should be are several. Perhaps the most important reason is the slow growth in employment opportunity in the agricultural sector as mentioned earlier. Furthermore in the industrial sector, there has been a tendency for capital intensive industries, and for the industries to use capital intensive technique, because of the industrial promotion policy (Akrasanee, 1979). Thus although employment opportunity in the service sector has been expanding very rapidly, it is still not enough to absorb the growing labor force.

II. CURRENT DEVELOPMENT PLAN, PERSENT AND FUTURE PROBLEMS AND PROSPECTS

1. The Current Development Plans and Polocies

Thailand is now (1978-79) within the period of the Fourth Five-Year National Economic and Social Development Plan (1977-1981) (NESDB, 1977). The plan is supposed to be the document providing statements of official policies on economic and social development. But, as will be shown below, for Thailand the Plan provides only a guideline to current policies.

To understand the essence of the Fourth Plan it is necessary to briefly review the preceding three plans and the events surrounding them. The First Plan was launched in 1961, and it was a six-year plan (1961-1966). It was basically a plan to build necessary infrastructure and to widen production base. The Second Plan (1967-1971) was essentially a continuation of the First Plan in terms of its objectives and work programmes. Partly as a result of better economic management through

planning, and partly due to the development of the world economy, the Thai economy was growing very rapidly during the first two-plans period. G.D.P. at constant 1962 prices was growing at 8 percent annually. Both capital formation and saving rate were growing impressively, contributing to further economic growth.

The rapid growth of the economy brought with it certain problems such as the widening gap in income and the concentration of industry and commerce in Bangkok. Other problems mentioned were the linkage of industry to agriculture and lack of benefits to the majority from the built-up infrastructure. The Third Plan (1972-1976) was thus drafted with the intention of correcting these problems. But basically the Third Plan continued to be the programme of infrastructure spending and still follwoed the sectoral approach, with additional targets such as population growth, irrigation and road network. Other objectives for industrial development, i.e. exports, employment, and rural industrialization were also added.

Changing events during the Third Plan made the Plan irrelevant as a statement of policies. Soon after the Plan was launched there was a commodity and grain crisis, resulting in the beginning of hyperinflation, with a rice crisis in the country. The major political change in 1973, not unrelated to the rice crisis, and the ensuing political development, made the concept of economic planning in the traditional sense completely irrelevant. Little attention was paid to the Third Plan by the successive governments. Thus in 1975 and 1976 when preparations for the drafting of the Fourth Plan (1977-1981) were underway a decision was made to change the nature of planning in Thailand. By assuming in 1975 that the

democratic form of government would prevail, and each elected government having life shorter than the Plan, the "indicative" approach to planning was adopted instead of the "allocative" approach used previously. Moreover the emphasis was changed from growth orientation to social awareness. Thus the 8 important issues of development were identified, and remedies suggested. These 8 issues are:

(1) The development and conservation of major economic resources and environment;

(2) The diversification and increase in efficiency of production in rural areas;

(3) The development of industry;

(4) Exports, imports and the promotion of tourism;

(5) The development of principal cities and the improvement of Bangkok;

(6) The dispersion of basic services;

(7) The dispersion of social services;

(8) Social development.

Judging from the eight important issues identified and the suggested allocation of funds thereof, it would seem that policy at present is to improve social welfare especially of the country's poorer majority. For, as shown in Table 14, the issue of the dispersion of social services and social development would receive 41.1 percent of the total fund allocation for the 8 issues during the Plan period. But reading of events since 1977 has not confirmed

Tabl

Fund Allocation for Progr

Issues	Annual budget		Foreign loans	
	Projects carried over	New projects	Projects carried over	pr
1. The development and conservation of major economic resources and environment	14,755	1,800	-	
2. The diversification and increase in efficiency of production in rural areas	21,520	8,240	435	
3. The development of industry	695	1,600	-	
4. Export, import and the promotion of tourism	1,065	195	-	
5. The development of principal cities and the improvement of Bangkok	10,930	505	-	
6. The dispersion of basic services	23,190	10,020	-	2
7. The dispersion of social services and social development	83,075	19,245	-	
8. Reserves	-	3,565	-	
TOTAL	155,230	45,070	435	2

Source: NESDB

14

mmes under the 8 Issues

unit: millions of baht

jects	Foreign grants: Projects carried over	Foreign grants: New projects	Income from state enterprises & local administration: Projects carried over	Income from state enterprises & local administration: New projects	Total: Amount	Total: %
335	75	125	150	-	17,240	6.8
980	265	285	300	-	35,025	14.0
455	25	15	215	-	3,005	1.2
250	-	30	-	-	1,540	0.6
320	-	20	11,460	-	24.235	9.6
420	85	165	7,555	-	62,435	24.7
440	310	545	70	-	103,685	41.1
165	-	555	-	-	5,285	2.0
365	760	1,740	19,750	-	252,450	100.-

this expectation. In fact the policy has been first to revive economic growth, and second to reorganize certain economic institutions with the objective of creating an environment for a better economic development.

The priority of reviving economic growth may be seen in a number of actions taken since 1977. First the new investment promotion law was promulgated in April, 1977, which gave much more authority to the Board of Investment in terms of decision and investment incentives available (BOI, 1977). Then there was the export promotion drive in 1978, even though actions taken might not have been successful. The decisions to go ahead with several very big projects were also made because of the belief that they would provide an impetus for economic growth. These big projects include the natural gas project, the deep sea port, and the expansion of the international airport. Concern for social development has been expressed by the government, but there has been no major concrete action apart from declaring 1979 "Year of the Farmers" and an announcement indicating a big expenditure for that policy. The other decision which shows concern for welfare of the majority is the new commercial bank bill. In effect the bill makes it a rule that there be more lending to the rural sector. As for other areas, the policy is basically to maintain the status quo, or making piecemeal corrections on certain issues rather than having major changes in policies.

2. Problems and Prospects

Based on the foregoing discussion several problems may be identified to be the major problems of Thailand in the 1980s. Below are attempts to present some of these problems and the prospect for solving them, not necessarily in order of seriousness.

A. Energy and other resources.

Although energy is a worldwide problem, it is perhaps more serious in Thailand than in many countries. This is because of the degree of dependence on imported oil and petroleum products, which is about 80 percent of the energy need. The cost of petroleum import was quite manageable before 1974, when it represented about 15 percent of total export earning. (Table 15). Now Thailand is spending about 30 percent of export earning on oil alone. The only relief in sight is that when the natural gas project comes on stream in full in 1983/84 it may substitute about 20 percent of the oil need.[1/] Assuming that the demand for oil may be equivalent to 40 percent of export earning by that time, the use of natural gas would reduce it to 32 percent. This is still a very large percentage, and also the natural gas project itself will have foreign exchange cost which is to come out of export earning. Thus if there is no other major substitute for oil, which is most likely, Thailand will definitely have to cut down its oil consumption.

Other resources have also been found to be dwindling rapidly. The latest survey of the country indicates that there is only about 30 percent of forest area left. This means that it will not be possible to expand the cultivation area, and the increase in

---

1/ Information from the Natural Gas Organization of Thailand.

Table 15

Thailand: Imports of Petroleum Products

(Million of baht)

Year	Crude oil	Diesel & Fuel Oil	Others	Total	As percent of total imports	As percent of total exports
1972	2,432	347	336	3,115	10.09	14.41
1973	3,572	677	412	4,661	11.05	14.97
1974	10,382	1,532	657	12,571	19.63	25.57
1975	12,076	1,478	679	14,233	21.30	29.96
1976	13,857	2,116	722	16,695	22.91	27.74
1977	16,448	3,415	914	20,777	22.08	29.16

Source: Customs Department, Bangkok.

agricultural production will have to come only from an increase in agricultural productivity. Other resources such as marine, minerals are also known to be in low supply. Fishermen have to go further and further away, often as far away as India and Indonesia for their catches. And the unorganized exploitation of tin deposit in Pang-nga province has practically destroyed a very large potential area of tin deposit. So far there has been no major discovery of other minerals in Thailand, although there have been reports of potential deposits in many areas.

B. Population trend and demographic structure

With resources being rapidly depleted one consolation is that the population growth has been brought down significantly from more than 3 percent in the 1960s to about 2.5 percent, and still falling, in 1977 (Table 16). But this will only show its economic effect after the 1990s, because those who were born in the 1960s and early 1970s will be the ones that contribute to unemployment problems in the 1980s. As shown in Table 16, the growth rate of population of the working age group (15-59) will remain higher than 3 percent almost throughout the 1980s. The problem will be how to increase gainful employment fast enough to absorb these people. Since agriculture has the largest employment base, it is inevitable that the country will have to fall on growth of the agricultural sector as the main source of new employment creation. But, as pointed out earlier, with limited new land, the only way to increase employment potential is to make use of the existing land more intensively. This is not an impossible proposition, for it is known that the same land can be used for more crops if proper incentives are available.

Table 16

Population by Age Group, 1960-1990

	1960	1970	1975	1980	1990
	(in millions)				
Age groups					
Under 15	11.3	16.3	18.3	19.9	22.0
15 - 59	13.7	18.0	21.5	25.4	34.3
60 and above	1.2	1.8	2.0	2.4	3.5
Total	26.3	36.1	41.9	47.7	59.8

	1960-70	1971-75	1976-80	1981-85	1986-90
	--(Average annual growth rate over period)--				
Under 15	3.7	2.3	1.7	1.1	1.0
15 - 59	2.8	3.6	3.3	3.2	2.9
60 and above	3.9	2.9	3.4	3.8	3.7
Total	3.2	3.0	2.6	2.4	2.1

Source: World Bank, "Thailand: Towards a Development Strategy of Full Participation", op.cit., Table 4.1, p.68.

C. Agricultural productivity and rural poverty.

Following the problem mentioned above is the issue of agricultural productivity. It is well known that the main cause of rural poverty is agricultural productivity being too low, which in turn is due to lack of necessary productive inputs. This factor is also believed to be the cause of migration into Bangkok, and of low unskilled wages, hence urban poverty. The lack of necessary inputs is due to the high price of fertilizer relative to crop prices, and the unavailability of water in certain areas. The results have been low intensity in land utilization and improper choices of crops. An abvious recommendation is to correct the relative price of fertilizer to prices of other crops especially rice. And with an improved irrigation network, there is a good prospect that agricultural productivity can be increased.

Another recommendation which has been made is for farmers to grow other crops instead of rice in the Central Plane. In the past farmers have been very quick in responding to better income from other crops, as evident from the growing land area under maize, tapioca, and sugar cane. But the crops referred to above were meant to be vegetables, which would yield higher income per hectare. The problem in this case is in the marketing of these vegetables.

D. Industrial development.

There is an excellent prospect for industrial growth. The years 1977 and 1978 clearly demonstrated the dynamism of the manufacturing sector in Thailand, with an average annual growth rate of about 14 percent in real terms. But there are problems associated with industrial

development which require immediate attention and corrective as well as preventive measures. These problems may be grouped under production, marketing, finance, ownership, and roles of the government.

The first production problem is concerned with the difficulty in producing intermediate products at a lower level of fabrication. As markets for finished products and intermediate products at a higher level of fabrication are being filled, given a certain rate of growth of income, consideration has been given to the production of basic industries such as iron and steel, certain types of chemical industrial raw materials, fertilizer, paper, etc. The production of these industries usually requires a large scale, and is often justifiable only on a regional basis. The locational problem has been mentioned earlier. For obvious reason, industries do not find it attractive to locate their factories in areas far away from Bangkok. And there are no effective government policy measures which encourage them to do so. With respect to technique of production it has been found that there are incentives to use machinery instead of labor (Akrasanee, 1978). This is why the expansion in industrial output has not been creating employment as much as it could have been.

Market so far has not been a serious constraint on the overall industrial development. The domestic market has been expanding with the growth of income. In the 1970s manufactured

exports became a reality, and have been expanding ever since. There has been discussion about protectionism in industrialized countries against manufactured imports from developing countries. But so far Thailand, being a marginal exporter, does not seem to have suffered from it. Of course in the long run if protectionism prevails on a general basis, then the growth of Thai manufactured exports will be affected by it.

Other problems associated with industrial development are the lack of investment fund in certain sectors, especially small scale industries, and concentration of ownership of industries in a small number of families. Foreign ownership is also predominant in certain sectors notably petroleum refinery, auto assembly, metal industries, and even in food processing. Finally the lack of well co-ordinated policies of the government itself, especia ly in the areas of taxation and various controls (on prices, production, exports and imports) has often led to difficult situation in certain industries.

In recent years there has been efforts by the government to establish institutional and physical infrastructive for industrial development, with a varying degree of success. The development in the financial side is perhaps more impressive than others. The new commercial bank law is very much development oriented. The Industrial Finance Corpor tion of Thailand has been expanding its activity very rapidly, and is becoming a much needed full-fledged industrial development bank. For small-scale industries, a financial institution catering especially to their development is to be set up in the very near future. On the trading side, Thai trading companies are being

promoted. And the revised commercial maritime act is believed to yield more benefits to Thailand. Areas in which the government has not been successful, or has not done much are ownership and control, investment promotion, and location of industries. The stock market has not been on effective means of encouraging public participation in ownership in industry. Foreign investment is still left to its own liberty. There are no sufficient criteria for industrial promotion. And finally, the development of industrial estate has been long delayed.

E. The external sector.

The significance of the external sector to the Thai economy has been elaborated upon earlier. Thus when the balance of payments is in trouble, which is the case at present, it is considered to have a serious effect on the Thai economy.

The balance of payments has been in the deficit since 1975 and does not show a sign of reversal in the near future. The preliminary figure for 1978 shows a deficit of 12 billion baht, which would bring down the total net reserve (public + private) to below US$1 billion for the first time since 1973.[1/] The forcast by most public agencies dealing with the economy shows a continuation of the deficit, the financing of which would require a growing amount of foreign loans. A recent estimate by the World Bank, based on certain development strategy (basically of accelerating manufactured exports) gives the following picture (Table 17).

1/ The net reserve figure, which is due to the large deficit in private debt, does not necessarily imply the degree of seriousness in the reserve level. This will also depend on the terms on which these private debts have been created.

Table 17

TRADE, CURRENT ACCOUNTS, CAPITAL FLOWS
AND DEBT SERVICE RATIOS

	1976-80	1981-85	1986-90	1976-80	1980-85	1985-90
	Annual average over period			Real growth rate		
Exports & NFS	4,508	9,719	20,019	5.5	11.1	10.5
Imports & NFS	5,733	11,224	21,733	9.1	7.4	7.9
Resource balance	-1,225	-1,505	-1,714	-	-	-
Current account	-1,294	-2,125	-3,100	-	-	-
Current account/GDP (%)	4.8	4.3	3.2	-	-	-
Terms of Trade (1970=100)	91.3	90.7	89.2	-	-	

	1976-80	1981-85	1986-90
Public capital ($million)	502	1,202	1,676
Private capital ($ million)	695	1,011	1,654
Debt service ratio, public (%)	3.6	8.6	8.3
Debt service ratio total (%)	14.0	19.3	19.1

Source: World Bank, ibid., Tables 5.14 & 5.15, p.122.

The projection shows a large deficit in the current account through the 1980s, which is to be financed by a rising amount of capital inflow, the result of which is an increase in the total debt service ratio from 14 percent in the 1970s to the average of 19 percent in the 1980s. This ratio is considered manageable by international standard. But the estimate has been based on the projected growth rates of exports and imports of 10.8 percent and 7.6 percent at constant prices respectively. The realization of this estimate thus depends very much on how realistic are the projected growth rates. Based on recent trend, it would seem very difficult for exports, because that would imply a double of growth rate. Growth of imports will also be difficult to slow down, unless some drastic measures are taken to slow down the growth of oil and machinery imports, both of which have serious economic growth implication. Furthermore, recent decision by the government to implement big projects such as the natural gas, expansion of oil refinery, deep-sea port, and cement would require more imports than they would save in terms of foreign exchange at the initial p

It seems therefore that there is a real need for slowing down imports of oil and machinery. The price of oil will have to be adjusted such that the demand for oil is not to exceed a certain percentage of export earning, say 25 percent. This is considered necessary, for if the country is to have its earning for other goods it can not continue to spend more than 30 percent of its earning on oil alone, on top of the 20 percent spent on paying interest and repayment on debt. The myth about not being able to slow down import of machinery too needs to be cleared up. First, saving may be achieved through alternative sources of imports. And machinery should be made

more expensive by increasing taxes on them so that machinery usuage may be economized.

There is perhaps more prospect in the increase in exports. We have mentioned earlier about the impressive growth of manufactured exports. Exports of primary commodities also have a potential for stable growth, if they are properly managed. The organization of primary commodity trade at the global level if successful, would help promote and stabilize Thai exports.

III. ALTERNATIVE DEVELOPMENT STRATEGIES FOR THAILAND FOR THE 1980S

It has become apparent that Thailand is faced with a growing demand for more sharing in the development process while constraints acting on the economy are becoming much more severe. The demand is due to the realization that social objectives of development have not been sufficiently fulfilled. A large number of the people still live below absolute poverty. They have not participated fully in the development process. Yet at the same time resources are being depleted faster than their discovery including the discovery of ways to save them. The interdependence with other countries has made Thailand subject more to changes in international environment. All of these new development suggests that Thailand needs to think of a new set of development strategies for the 1980s.[1/]

1/ Discussion in this section has been derived largely from Akrasanee (1978 b).

1. Current Thinking on Alternative Development Strategy

There has been a growing dissatisfaction with the outcome of past development efforts in most countries, market economy as well as socialist, which has led to the search for an alternative development strategy (ADS). The followings are some of the causes of dissatisfaction which have often been cited.

(1) The prevailing poverty in most countries, even in those considered to be rich countries. It has often been criticized that after a long period of development efforts, poverty has not been eliminated. The gap in income has also been found to be widened in most countries. With a very rapid depletion of natural resources and a fast population growth, the problem of poverty and income distribution will be more and more serious.

(2) The degree of democracy in terms of human rights and freedom has not increased with the increase in income. This is contrary to what people were told to believe at one time or another as a justification for the so called "temporary authoritarian rule". The quality and the meaning of life have also been found to be on the decline in some countries.

(3) The degree of dependence on other countries, especially of the developing countries on developed countries, has increased rather

than declined. Again this is contrary to the belief that it should decline following industrialization. The situation seems to be worst in the least developed countries. This may be seen in the growing amount of debt which they have found to be very difficult to pay. To these countries, it is the matter of not knowing how long they can depend on others. To another group of countries the dependence is in the form of import dependence. The import bill has been growing often faster than their export earning and economic growth, resulting in the widening gap of trade deficit. The problem in this case is how long they can continue to rely on capital flow to finance the growing trade deficit.

(4) The increase in expectation of the people in every country, which has become more and more difficult to fulfill. Modern communication has created the "demonstration effect", and the people continue to want more and more of everything.

(5) The increase in the role of state and the size of bureaucracy. This has usually resulted in inefficiency and disillusionment with the government. In some countries, even in the United States, it has produced a rebellion against the State.

(6) Developing countries feel that they have been exploited in their international economic activities, and that the existing international economic institutions are not effective in correcting the imbalances. The problems are seen in the prices of primary commodities, protectionism in developed countries against imports of processed primary commodities and manufactured goods from developing

countries, and the control of transnational corporations through investment, marketing and licensing agreements.

The discussion on ADS has been held at several fora, at sub-national, national, regional, and global levels. The fora may also be classified according to the participating parties. For example the Non-Aligned Meeting in Colombo in August, 1976, was attended by governments of the third world; the Conference on International Economic Co-operation (the North-South dialogue) in Paris in 1976-77 was participated by governments of both the third world and industrialized countries; the Interfutures group (of the OECD) consists entirely of industrialized countries; the Third World Forum and the Inter-regional Co-ordinating Committee of Development Association (ICCDA) are both third world but non-governmental. At these fora as well as at others the objective and strategies for development have been discussed. For objective it seems that the satisfaction of basic needs has been voiced as the most important objective of development. Different countries may define basic needs differently, but most usually include the physical necessity of life and human rights and freedom. The responsibility to satisfy basic needs has been extended to the global level. Developed countries and more advanced developing countries, in other words, are expected to help poorer countries satisfy the basic needs through international transfer of resources.

Apart from the concept of basic needs the following concepts, which may be considered to be strategies, have most often been mentioned.[1/]

1/ See Rist (1978).

(1) Self reliance. Every country has expressed the wish to rely more on itself. The definition of self reliance varies from country to country, from the most extreme one of autarky to delinking, and to just an improvement in the ability to manage itself. It there is the need to rely on others, developing countries would like to rely on countries that are at similar level of development. This is the concept of collective self reliance.

(2) Resource and environmental constraint. There is now an awareness of the limitation of resources and the deterioration in environment Energy has been cited as a resource which is non-replenishable. Some raw materials may be substituted by others at different periods of time through research and development. But the production of these raw materials require energy input. Furthermore, the use of energy also creates environmental problems, some of which have become irreversible. A strategy of development is to preserve resources and environment as much as possible.

(3) Indigeneous technology. The technology to be used is indigeneous in the sense that it is suitable for local conditions. Advanced technology is usually developed in advanced countries which, naturally is made to suit the conditions in which it is developed. Since conditions in developed and developing countries are different, advanced technology is often found to be too expensive in terms of resource cost for developing countries. On the other hand if a technology can be developed based more on local conditions and availability of resources, it is believed that this strategy would be more appropriate in the long-run.

(4) Institutional reform and structural adjustment. Two concepts are involved here. The first is a reform of institutions in the sense that it would allow more participation in the development process. A difference is made between "top down" and "bottom up" approaches to development. The "top down" approach is a natural consequence of a very centralized form of government. It has been found that through this approach the development is forced down, and has not produced what the people need. A reform is to be made such that decisions are made at the level closer to the people themselves.

Structural adjustment is meant to be an adjustment in the production structure. The concept is applicable to both developed and developing countries, and is considered necessary for a harmonious growth of the world economy. For developing countries, the economic structure is often found to be too dependent on imports, and further development would lead to more import requirement. This concept is thus complementary to the concept of self-reliance. In the case of developed countries, structural adjustment means the phasing out of industries in which comparative advantage has been lost. This would allow for the expansion of imports from developing countries.

(5) Reordering of the international economic system. This is the external strategy which developing countries have been working together. The objective is to create an international economic system which will provide a more equitable distribution of gains from international economic relations. There are many areas in which developing countries have been attempting to work out certain arrangements. These may be summarized as follows.[1/]

1/ The summary is based on EEC (1977).

a. Raw materials. Developing countries seek to stabilize their export income from their export of raw materials, and to maintain their purchasing power through export of raw materials by way of price stabilization or indexation. Furthermore they seek to add more value through processing on the spot, and to have a surveillance of the conditions for competition between natural products and synthetic substitutes. A programme proposed to deal with these activities is known as the integrated programme for commodities (IPC), which has the Common Fund as the financial instruement.

b. Manufactured products and industrial development. Developing countries seek to have a better access for their manufactured exports to the market of industrialized countries through the elimination of tariff and non-tariff barriers. They propose an international redistribution of industrial activities to give LDCs a greater share of world industrial production, thus enabling them to satisfy their own domestic needs. They also encourage industrial investment in their country with a transfer of technology.

c. Public aid and private capital transfer. The proposals include several items, namely: the public aid objective for the second development decade (0.7% of GNP from the rich countries) to be made and the conditions attached to it made less strict; increase of resources from international development finances, eg. World Bank, IDA, and regional banks; increase of access to resources (notably from the IMF) to cover balance of payments difficulties;

cancellation of public debt of the least developed countries; rescheduling by new methods of public debt of developing countries; and measures to protect developing countries from international inflation.

d. Energy. LDCs would like to see (1) a recognition of the limited character of oil and natural gas resources; (2) maintenance of the purchasing power of revenues coming from export of energy; and (3) development of all forms of energy.

e. Services and the tertiary sector. These areas are known to be under the control of DCs. LDCs thus want greater participation in the field of maritime transport, insurance, tourism, etc., and reduction in the cost of access to technology such as patents, know-how, etc.

f. Agriculture and food. Proposals which have been made are: development and diversification of the production of developing countries to meet their general food needs; increase of financial resources devoted to agricultural development; and improvement of food aid programmes.

g. International decisions. Perhaps this is the most contested area in recent development of international economic relations. It is well known that DCs have designed "rules of the game" and have administered those rules believed to be to their advantage. Thus LDCs have demanded: that roles of developing countries in international institutions be increased; right of participation in common administration of common resources (eg.

submarine resources); and code of conduct for transnational corporations.

It is obvious that the proposals for reform of the international economic system have been both elaborate and articulate. What is not obvious is how the proposed international strategies are linked to the internal strategies. Perhaps this will vary from country to country, and will be determined by the degree of openess of the country, the availability of natural resources, and the level of the country's development. A discussion more relevant to the Thai situation will be made in later sections.

2. Thailand and the Alternative Development Strategies

The suitability of development strategies for a country depends upon economic, social and political conditions of the country. Thailand is an interesting case study for various reasons. In relative term the rate of economic growth has been an impressive seven percent in real term during the last two decades. With this rate of growth, the per capita income is now about US$450, which means that the country is no longer a poor country by world standard. But poverty remains a serious problem in Thailand. According to the latest statistics, on the average 25 percent of the population are still living below the poverty line, with a much higher percentage in rural areas. The Thai economy is described as agricultural, for more than 75 percent of the people depend on the farm as their means of livelihood. And although the government plays an important role, the economy relies very much on private initiatives and enterprises,

with foreign trade and investment being important factors in economic development. / Several problems have been identified and analysed in the previous section. We summarize below the problems considered to be more serious.

Lack of energy and depletion of natural resources have been identified to be among the more serious problems faced by Thailand . This is followed by the high rate of population growth and the demographic structure which reveals a very high rate of labor force participation. In terms of production, though the industrial sector has a relatively good potential for growth, growth in the agricultural sector depends very much on the increase in agricultural productivity. This is perhaps the most crucial factor affecting economic development of Thailand in the 1980s. Finally the deficit in the balance of payments has become a serious constraint on the Thai economy.

What we have not mentioned so far is the probler of economic and development management. This is an obstacle to development. The problem is seen to be more serious at the public level. Specifically the State lacks mechanism to deal with the increasing number of development problems and issues. The State is still organized in the same way as it was a century ago when the duties of the State were confined basically to defence of the country and the maintenance of law and order. During the last two decades the State, or the bureaucracy, has expanded itself, and has assumed the role of a "welfare state". It has created expectation among the populace that it will provide all amenities that will lead to an improvement in

social welfare. Social welfare has, therefore, become the responsibility of the State. But the State is not capable of handling this new task. With the high rate of population growth and limited resources, the provision of welfare as expected of the State has become practically impossible. Furthermore, the Thai government has a very serious shortage of capable personnel, because of its low pay relative to the private sector's and a very inefficient decision making procedure, which is even more serious at the very top level. The whole decision making process is anti-development. Practically every important decision has to be made by the Cabinet, and any controversial ones by the Prime Minister himself.

The State is not alone in having the shortage of qualified personnel. In fact the same thing can be said of the entire economy. This makes the issue of management even more important.

Having identified the problems, and having discussed the concepts of development, it is proposed that the satisfaction of basic needs be the most important objective of development for Thailand. If this is accepted, then it will represent a very important change because in the past the satisfaction of want was usually the rule.

Basic needs should be defined to include not only food, shelter, and clothing, but also education, public health, gainful employment, human rights and freedom. These elements are considered necessary for a meaningful life. As to the level of satisfaction, the old expectation as reflected in the Thai saying of "eat well, live well", is considered to be too much, and "eat moderately, live moderately" should be adequate.

The new development concepts mentioned in subsection o are applicable to the case of Thailand. But because of the peculiar characteristics of the Thai economy and its problems, the development concepts as discussed in subsection 1 need to be modified, and other considerations added. In general terms the following strategies are suggested for the satisfaction of basic needs.

(1) To continue to use market and not the State for the distribution of goods and services. In other words, the market economy is to be continued. Thus the alteration of production process is to be accomplished through taxation and subsidization.

(2) To have more self-reliance in the sense that the country is to manage its own problems, to make its own decision, and to work for what it needs. This definition of self reliance is different from the popular definition, which is to reduce the relationship with developed countries. Thailand considers the relationship to be interdependence rather than dependence, thus there is no need to reduce the relationship. The increase in interdependence will be of mutual advantage if the country is able to manage itself.

(3) The new strategy is to preserve resources and environment. Resources are defined to include human as well as traditional resources. The desire to have a more efficient resource management is clearly felt. Energy has been identified to be the most crucial resource.

In connection with resource preservation it is believed that the slowdown in the rate of increase of consumption would contribute

to resource saving. Advertisement may be blamed for a lot of wasteful consumption, and certain kinds of advertisement should be restricted.

(4) The concept of indigeneous technology is viewed favorably as a means to help solve many local problems. But indigeneous technology needs not be the only kind of technology. It is felt that market-oriented technology would be more suitable for export expansion projects. It is obvious that, especially for manufactured goods, exports are demand determined. Thus their production and marketing technology should be determined by the market.

(5) There should be a reform in the bureaucracy and institutions dealing with development, so that the State will be able to contribute to the new development. In this case the roles of state should be clearly specified. The reform is considered necessary to allow for local participation. We shall come back to this point later.

(6) To continue to use the open economy approach for international economic relations. The new strategy will be that serious efforts will be made to derive maximum benefit from the external sector. This is to be achieved also through co-operation with other developing countries, and with countries producing similar commodities. The strategy should produce more income for the country, which can then be used for basic needs.

In the following subsections we shall discuss in more detail the development strategy for the internal and the external sectors.

3. Development Strategy for the Internal Sector

On the objective of development to satisfy basic needs, it should be emphasized that the satisfaction of basic needs is most lacking in rural areas. Problems in rural areas are linked with problems in urban areas through migration. For example, low productivity in rural agriculture which is the main cause of rural poverty is the determinant of the unskilled wage rate in the urban area which, in turn, is the main cause of urban poverty. Attention should therefore be focused on the rural area.

Consequently three specific strategies are suggested.

(1) Rural development is to be the strategy for the coming decade. The strategy is to increase productivity and thus income of the farmer through a more intensive and more appropriate utilization of land. As for urban unemployment, the problem will be somewhat lessened by the rise in rural income. In addition an export-oriented strategy of industrialization will be able to create more jobs than the import substitution strategy adopted so far. Small-scale and labor-intensive industries, if promoted, also have a high capacity to create employment. Of course all of these measures would still not be enough to combat unemployment and poverty, and the rate of population growth must be brought down to 2 percent by the year 1990 at the latest.

(2) A new agricultural pricing policy should be implemented such that income of the farmer will increase at a faster rate than in other sectors. This refers in particular to the increase in the price

of rice on a stable basis, using the average long term world price of rice as guideline.

(3) For other rural development projects, the following suggestions are made.

a. There is a need to change the attitude towards rural development of both the so called development workers and the people in rural areas. In the past rural development projects were activities thought to be carried out by one party, the government, for another party, the people, and the attitude was reconfirmed accordingly. This has resulted in a discontinuity in development works.

b. Rural development project needs to have consent from the people in the area. In other words, a project is not to be forced upon an area as it used to.

c. There must be a full participation from the local level, from local planning to implementation, monitoring of projects, and co-ordination with other projects.

On what model a rural development project should take, we certainly would wish to see a Thai model, but are not quite sure what such a model looks like. What is certain is that Thailand has already tried too many pilot projects, some based on a Korean model, some on an Israeli model, etc. The trouble with this pilot-project approach is that the project is fashionable only for a short while. Changes have been frequent and have created confusion in the process. It is also felt that the government should keep its involvement in rural development projects to the minimum. There are cases of too many government agencies having visited a particular area without co-ordination among them. A model suggested is to use a non-profit private organization to carry out the project by working with the local

people on behalf of the government. This model has been applied very successfully by the Population and Community Development Association of Thailand in its health project which it has carried out for the Ministry of Health. There are several advantages in this approach, the most important of which are, firstly, the organization will be held accountable for its task, and secondly, the feeling of dealing with "the authority" of the people is very much reduced. Those who are familiar with Thailand would appreciate these two advantages.

To summarize, development strategy for the internal sector is to have three components: a general policy with a focus on rural development; a new agricultural pricing policy more favorable to the rural sector; and a new approach to implementing rural development projects. The strategy can be translated into specific actions which will involve many areas of economic activities. For example the general policy with a focus on rural development implies a rising proportion of government expenditure for rural areas; the new agricultural pricing policy means an effective price support program during a slump year; and the new approach to rural development projects requires changes in the procedure in implementing these projects.

It is obvious that the internal strategy can not be designed and carried out in isolation from the international economy. In the next subsection we shall discuss development strategy for the external sector, and then try to explain the linkages between the two sectors.

4. Development Strategy for the External Sector

The significant influence of the external sector on the country's economic development is well known, the consequence of which has been the duality in the economy. Attempts to break the duality may have adverse repercussion, and a different set of strategies for the external sector is therefore necessary.

The link between the external sector and the internal sector is through foreign trade, foreign investment, and capital flow. Having assessed changes in the international economic system, we are of the opinion that the system in the 1980s is likely to be the combination of the present system and the system as suggested in the NIEO movement. In other words protectionism in developed countries, exchange rate flexibility, and the influence of transnational corporations in world trade and investment will continue, but there will be more participation in the management of the world economy from the developing countries. For Thailand the external sector will be relied upon for the exchange of goods and services, and as a source of investment fund, for the benefit of the national economy. As mentioned earlier, in general the open-economy approach will be continued. More specifically, a few strategies are suggested.

A. Trade.

More negotiations should be used to expand and to direct trade. Negotiations are to be carried out on both bilateral and multilateral bases. New market for exports and new sources of imports should be identified. For exports, we have in mind negotiations with socialist countries, and countries which have been applying

restrictive trade practices (EEC, Japan, the United States). New sources of imports are seen in a number of more advanced developing countries. Products should be promoted for export, and imports should be kept at the level which the country can afford in the long run. In effect an aggressive management strategy should be applied to foreign trade.

In addition to the strategy outlined in the preceding paragraph, Thailand should design alternative strategies taking into consideration some proposals in the NIEO movement. The proposal to have a reordering of trade in primary commodities should at least have the effect of more opportunities being opened for processing of raw materials in Thailand before export. The demand for greater access for manufactured products from LDCs to the markets of industrialized countries should have an important effect on the development of manufactured exports of Thailand. Since it is unlikely that LDCs will succeed in this demand, it follows that trade will be more managed through quota arrangement. Furthermore, the more advanced developing countries will have to concentrate their resources in the production of higher-technology goods (rather than the labor-intensive ones), thus they will soon become new markets for manufactured exports from a country like Thailand. In both instances negotiations to promote trade are required.

It is obvious that these trade strategies will contribute to the effectiveness of the internal strategies suggested earlier. More processing of primary commodities would benefit the rural sector. And the promotion of labor-intensive manufactured exports will contribute to employment creation in urban areas.

B. Finance and development.

Grouped under financial strategy are the issues of foreign debt and foreign investment. For foreign debt, it is certain that Thailand will have to rely more on it during the 1980s because of the difficulties in the balance of payments and the development needs mentioned earlier. The strategy here is to create debt at the best terms possible, subject to the constraint that the debt-service ratio for both public and private debts should not exceed 20 percent. This implies that the creation of private debt should be administered or at least monitored, because the terms of private debt will affect the inflow and outflow of fund.

With respect to foreign investment, Thailand has so far been very liberal. Only foreign investment under the "promoted" category has been supervised and followed up by the Board of Investment; the rest have been practically left to do as they wish. Apart from other effects of such a liberal policy, it is felt that more benefits from foreign investment could be derived through clearer policies and quidelines on various aspects of foreign investment including licensing agreements and transfer of technology.

C. Co-operation with other countries.

Co-operation with other countries such as ASEAN is strongly encouraged. This is mainly for the purpose of increasing the bargaining strength and for trade expansion. During the last few years ASEAN has proved to be a viable form of regional economic co-operation. It has reached agreements in the areas of industrial

co-operation, preferential trading arrangements, co-operation in basic commodities (i.e. food and energy), and joint approaches in international negotiations. Although up to now only the agreement on preferential trading arrangement has been implemented, all other agreements are either close to start or have a very strong potential.

D. The development of international services and tertiary sector.

This is a very important area which has been largely ignored until very recently. By developing maritime transport and insurance Thailand can save substatially on the foreign exchange cost of imports. The cost of patents and know-how too can be saved through more appropriate legislations, thus saving the payments in foreign exchange for these services.

Apart from what has been said briefly above, perhaps what Thailand can do is to join with other LDCs in their efforts to reform the international economic system. Thailand is usually known to have a moderate position on international economic issues. This position should be maintained, but in a more active manner. That is Thailand should be "actively moderate", for we believe that this is perhaps the only way to make the reform possible. A moderate position means co-operation rather than confrontation, which has been the standard practice in international negotiations. In this respect Thailand, through ASEAN, can perform a very useful role in the North-South relations.

5. An Industrial Framework for the New Strategy

To visualize an industrial (production) framework it is important to establish the linkage between internal and external strategies described above. It is not difficult to see that the linkage is through foreign trade. The increase in agricultural productivity and hence output will result in higher income for the farmer if and only if the additional output can be sold at good prices. Obviously this may be achieved through export. And if they are exported in processed form, it would mean more local value added and employment. Higher income in rural areas will lead to more effective demand for manufactured goods. Thus export promotion is seen to be very consistent with the policy of rural development through the improvement in agricultural productivity. Furthermore, the strategy to promote manufactured exports is necessary for the policy of export-oriented industrialization.

In the area of international finance, the strategy is designed such that financial requirement for development can be fulfilled on a continuous basis. And subregional co-operation, if successfully carried out, will be a powerful tool for the promotion of domestic industries and trade.

Having proposed internal and external strategies and having established the linkage between them, it is perhaps useful to visualize the production framework consistent with those strategies. If we are to divide productive activities into three groups, i.e. agriculture, industry (mining and quarrying, manufacturing, public utilities, construction), and

tertiary, then in terms of growth rate the agricultural sector will grow at the rate slightly higher than the historical trend of about 3-4 percent per annum. This is because of the limitation in land areas and the increase in agricultural output is only through the increase in agricultural productivity. Economic growth will therefore have to rely on growth of the industrial sector, particularly manufacturing, and the tertiary sector. For example if the overall growth is to be around 8 percent, the rate considered necessary for the eventual eradication of poverty in the 1980s, then both the industrial and tertiary sectors will have to grow at about 10 percent. Obviously if this is the case, the structure of production in terms of value added will be concentrated much more in the industrial and tertiary sectors by the end of the 1980s.

It should be emphasized that the growth-oriented strategy suggested above is designed with a social objective in mind. High growth is necessary because there is a need for more products to be shared among a much larger number of people. The basic difference between this growth strategy and the conventional growth strategy is that the new strategy is a growth-cum -distribution oriented strategy. That is, the promotion of growth is directed towards a particular sector, or sectors, of the economy, while the rest of the sectors are left to market forces, of course with proper government policies allowing market forces to function. This approach is considered suitable for Thailand because of the existence of a very strong and flexible private sector, and a relatively efficient market system.

In more detail the structure of all the sectors will also be drastically changed in the 1980s. The agricultural sector will have more high-income-yielding crops. More land especially in the Central Plain where water can be controlled should be turned to produce more cash crops including vegetables. Crops which can be grown in the Northeast will be promoted, and cassava and kenaf are seen to have a rising share in agricultural commodities. Similarly, the production of fruits, tobacco, and oilseed will increase in the North. The South will have a high-yielding rubber trees during the 1980s. And rural areas along the shore in both the South and the East will produce more marine products. Rice is seen to occupy less land, but its growth should remain at about the same rate.

In industry, manufacturing is expected to have the fastest growth rate. Within the manufacturing sector itself the following groups of products should have higher shares in manufacturing value added: processed food; agricultural equipments and machinery; products considered to be basic industries such as chemical fertilizer (potash), steel, soda ash, paper; construction materials; and labor-intensive products. It is clear that products expected to grow faster than others are those related to the agricultural sector (input and output), and the products which can be exported.

The production structure described above is considered to be consistent with the policy of the satisfaction of basic needs which has been identified to be the most lacking in rural areas. Realizing the fact that the Thai economy relies very much on market mechanism,

the structure is therefore an intended one. In terms of policy implication, it means that those sectors and industries should receive a high priority in government's policy and promotion activities. Other sectors may grow according to market forces. The only influence the government may have on them if it wishes is through taxation policy which does not encourage their production and consumption.

One last comment about the industrial framework and the policy of basic needs is that production is only one aspect of the development to satisfy basic needs. Other aspects are distribution and participation, the reorganization of which requires institutional reforms at various levels. There are also problems in rural areas beyond the scope of economic reorganization. For those problems specific projects will have to be carried out.

6. Roles of the Government and Other Organizations

It is obvious that the government has a very important role to play in the development to achieve the objective of the satisfaction of basic needs. For whatever will happen the government and the bureaucracy will remain. Also likely to remain in the next decade is the existing political system and form of government, which is an alternate between a military government and an elected government. Of course, one would wish to see a growing degree of democracy. Some people have expressed concern that if the government and the bureaucracy do not change (for the better) then the political system might be changed. The reason given for this possible outcome has been that the satisfaction of basic needs can not be achieved if the government and the bureaucracy

continue to work in the same manner as they used to a century ago, when the duty of the state was much more limited.

Following the above argument an obvious conclusion is to have a reform of the government, or the bureaucracy, or of both. At this point a very interesting observation is that some people tend to see the government and the bureaucracy to be two separate entities. Among these people, some feel that the bureaucracy could be reformed if the government really wants to. Others are of the opinion that it is the bureaucracy which controls the government, and not the other way around. Still other people argue that the government and the bureaucracy are legally the same person, and should both be considered together as the State. The question then is what should be the roles of the State.

In general one can readily observe among the public the dissatisfaction with the results of the State's efforts in development works, for reasons implicit in the discussion in earlier sections. Two alternatives may therefore be considered to be the nature of the reform of the State.

(1) The State is to be responsible for carrying out development works. In this case the quality of its personnel and its system of management must be overhauled. An important condition is that development works are to be carried out on a project by project basis. That is, development works are separated from routine works of the State, and the work unit set up especially for the project will cease operations when the project is completed.

(2) The State is not to be involved in development works, especially in rural development, nor in other non-routine works. All projects are to be contracted to the private sector, preferably non-governmental, non-profit organization.

Both alternatives are unlikely to be acceptable to the government. A more likely role the State can play may be as follows.

(1) In general the State is to be involved in development works, but with the understanding that it will improve its mechanism and method of operation.

(2) For single - purpose rural development project, the State should let a non-governmental organization (which is also non-profit) carry it out for the State. In this case the State may initiate a project, in consultation with the people affected, and then let the implementation be done by the people and a non-governmental organization.

(3) Activities in the external sector should also be initiated by the State. The private sector, which in this case is the business sector, should be asked to carry them out for the State, or to work with the State. Private commercial banks could help in this matter effectively.

(4) For general development the State should co-operate with other organizations such as the mass media, the business community, and other interest groups. These organizations, in turn, should be reorganized so that they can work more effectively with the State.

To translate the above suggestions into actions it is necessary to know how development decisions are made. In theory the development plan is supposed to be the document which sets difections and programmes for all development works carried out by line ministries. In practice this has not been the case. Since the early 1970s authorities of the planning office, the National Economic and Social Development Board, seems to have been on the decline, due largely to political reasons. In the meantime most line ministries have developed their own planning offices, some of which are now very powerful. These line ministries have direct access to the Cabinet, and have often bypassed the NESDB in the submission of their work plans. Another important development was during the period of elected governments when each government which took turn in coming to power would have its own development plan. The official five-year plan thus received very little attention.

Attempts have been made to bring more co-ordination to development works. The NESDB has been made more powerful by having the Prime Minister as the Chairman of its Executive Board. But it is doubtful if this reorganization would change the situation very much.

A likely scenario in the 1980s in terms of development administration is that there will be several governments, again each with its own programmes for development. The line ministries will continue to be powerful in their plans and programmes of works. How can, then, the State play the roles as suggested earlier?

With respect to planning for development, we feel that it has to be considered in two levels: the overall planning and the project planning. The NESDB should be responsible for the overall planning for both long term and short term. Its functions should be to identify basic problems of Thailand, and to suggest remedies, both of which should be acceptable to any governments. Thus its project evaluation task should be transferred to the Budget Bureau, which is infact already responsible for evaluating projects. The Budget Bureau will therefore plan projects with various line ministries.

The NESDB will, after this reorganization, be the planning authority of the country, perhaps under the name of the National Planning Board. Its staff can devote their time to planning and research, rather than spending most of their time attending various committee meetings as they do now. It will be the economic adviser to the government, seeing to it that the economic and social objectives of development are met, and internal and external strategies are carried out as planned. With an increase in knowledge through research and studies, the National Planning Board should be recognized as the development authority of the country. Without such a well-recognized body to keep following up on new policies, we are afraid that the alternative development strategies suggested in the earlier sections may never be implemented.

Having separated the project planning from the overall planning, the line ministries can now plan individual development projects. The implementation of these projects, as suggested earlier,

should be carried out with a full participation from the people. It is in this area which we think non-profit private organizations can perform a very useful role in bringing the authority and the people together. For the co-ordination of these projects there should be a national level committee perhaps with the Prime Minister Office as the Secretariat.

The implementation of the external strategy is to be carried out in a similar manner by the line ministries concerned. In this case co-operation with the business sector should be arranged. And since international economic affairs involve many ministries, but the country is represented overseas by the Ministry of Foreign Affairs, a national co-ordinating committee on international economic affairs should be set up with the Ministry of Foreign Affairs acting as the Secretariat.* The Secretariat will utilize local and international expertise on international economic problems in providing technical back-stopping for the committee.

IV. CONCLUSIONS

In this paper we have assessed past performance of the Thai economy, evaluated its present condition and future prospect, and proposed alternative development strategies for the 1980s. Because of the complex nature of the subject, we have been able to touch on only certain aspects considered to be more important than others.

---

* The present similar committee has the Ministry of Commerce as the Secretariat.

Past performance has been presented in terms of both sectoral development and the achievement of social objectives. The rate of economic growth during the last two decades, measured in terms of income, was very impressive. This has resulted in drastic structural changes, not only in terms of sectoral balances, but also within each sector. The agricultural sector has diversified to include several crops in addition to the predomineering rice and rubber. Industrialization too has seen the establishment of many new and modern industries, with production at a level of sophistication high enough to compete with imports and to capture overseas market.

The growth of the monetary sector has been parallel to the real sector, resulting in a much higher degree of monetization and commercialization of economic activities. With this higher degree of being a market economy, changes in economic variables have a far-reaching effect throughout the economy. One such variable is the price level, which has been moving up more rapidly in recent years than in the distant past. It was pointed out that the price movement during the last few years was in response to pressure on resources, especially during the short-run adjustment. Another variable is the balance of payments, the growing deficit of which has prompted great concern among policy makers.

While economic performance in terms of growth of income and production has been rather favorable, our investigation has shown that the fulfillment of social objectives has been far from satisfactory. The majority has not received a proper share of the development process. This was reflected in the persistence of poverty and the difficulty in obtaining gainful employment both in urban and rural areas.

We have found it difficult to interprete government's economic policies. The Fourth National Economic and Social Development Plan has given a high priority to social objectives of development. But major decisions of the governments in recent years were directed more towards stimulating economic growth, with relatively lower priorities given to projects that would provide physical and institutional infrastructure for a more equitable sharing in the development process.

Our analysis has led us to several conclusions regarding problems and prospects of the Thai economy in the 1980s. The shortage of energy and dwindling resources, especially with a lack of effective management, will make it much more difficult for Thailand to achieve in the 1980s the same kind of growth experiences in the last two decades. This problem is aggravated by the rapid growth of population in the working age group. Problems have been identified in the pattern of agricultural development and, to a less extent, industrial development. Measures to improve agricultural production has not benefited the poorest regions of the country. With the shortage of new land, and if no effective measures are implemented to increase agricultural productivity, the 1980s will see the persistence, if not worsening, of poverty especially in rural areas. Industrial development has been impressive, responding mainly to market forces. Problems that remain are well known, and can be corrected more easily than those problems found in the agricultural sector.

Our major conclusion is therefore that there are many serious problems lying ahead for Thailand in the 1980s. To summarize, the problem of poverty needs to be solved at the time when constraints acting on the economy are becoming much more severe. Thailand will have to manage its economy better, and to rely more on the external sector, especially foreign borrowing, with an expectation that further growth and better development would reduce some of the constraints towards the end of the 1980s. But the realization of such an expectation requires more that a better management of the economy. In fact the situation now calls for an alternative strategy for development.

To propose alternative development strategies for Thailand for the 1980s we have surveyed current thinking on the movement of "Alternative Development Strategies" (ADS) and the "New International Economic Order" (NIEO). For Thailand we have proposed that the satisfaction of basic needs should be adopted as the objective of development. Alternative strategies have been proposed for both internal and external sectors. For the internal sector the strategies are to aim at and around rural development. And a more active policy has been suggested for the external sector. Our suggestions on the whole are based on a growth-cum-distribution strategy of development.

Needless to say many of the ideas discussed under the proposed ADS are not new. What is new is the growing degree of acceptance of those ideas. The satisfaction of basic needs has already been emphasized in the Fourth National Economic and Social Development Plan. But so far the objectives laid down in the Plan have not had enough commitment from the top-level decision makers. Nor has the concept

been so far clarified and publicized enough. Rural development has also received a high priority for several years now. But the general opinion is that the government has been far from successful in its rural development programmes, in both rural development in general as well as specific rural development projects. The suggestions that the government should reorganize its bureaucratic machinery for a more effective and efficient development works, and that non-governmental organizations should be used for various development purposes are a clear expression of dissatisfaction with the bureaucracy.

On international economic problems the views expressed are a reflection of the realization that the Thai economy is very open. While it is subject very much to international economic fluctuations, it does not have much influence over them. Thus its main task is to be able to manage its external sector better, expecting that by doing so it can benefit more from international economic relations while it is more adaptable to changes. In this case it is inevitable that the duality will remain in the Thai economy in the sense that the external sector will continue to be market-oriented even when the internal sector is becoming more development-oriented.

The suggestions for reorganization of the bureaucracy may be considered to be very modest. But they are made because they are believed to be possible, apart from being thought to be necessary.

As the 1980s is approaching all indicators seem to suggest a growing number of problems. The international economy is heading towards a down-swing in the long-run cycle. This is bound to have a repercussion

on the Thai economy, although is not clear how much. The incidence in Iran will surely worsen the energy problem. The conflict in Indochina is becoming more and more global, causing great concern for security in Thailand. At the same time it has become obvious that a very large number of the people have received too little for too long from the development process. It is with these problems and prospects in mind that we have ventured to suggest some alternative strategies for development, so that the 1980s will be a decade of better development. We are hopeful that these suggestions will receive serious consideration from policy and decision makers of the country.